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C O N F I D E N T I A L SECTION 01 OF 02 GUATEMALA 000305

SIPDIS

TREASURY FOR OASIA: CHRIS KUSHLIS AND BILL BLOCK
USTR FOR REGINA VARGO

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TAGS: [ECIN](#) [ETRD](#) [PGOV](#) [GT](#)

SUBJECT: FOREIGN MINISTER BRIZ DESCRIBES AMBITIOUS AGENDA
FOR REGIONAL CUSTOMS UNION, BEGINNING WITH EL SALVADOR

REF: GUATEMALA 207

Classified By: EconCouns Steven S. Olson for reason 1.5 (d)

Summary

1. (C) EconCouns and an AID delegation called on Foreign Minister Briz Feb. 6 to discuss integration. Briz confirmed that a customs union, beginning with El Salvador, was a top priority of President Berger. He noted that El Salvador and Guatemala already had harmonized 96% of their external tariffs and that Nicaragua and Honduras were close behind. Costa Rica was "something else" to be taken up later. Guatemala is withdrawing immigration controls from the Salvadoran border unilaterally. Briz said the biggest problem would be with products where tariff phase-out schedules differed under CAFTA (read: beer). He said El Salvador's President Flores wanted to finish before leaving office, but Econ Minister Lacayo was opposed. Deciding how to share revenues collected on the periphery was easier than it had been made to appear, as businesses would report the proper jurisdiction in order to access tax credits or deductions. He wants discretion taken away from customs and was interested in our concerns over noncompliance with the WTO customs valuation agreement and SIECA's draft of regional contraband regulations. He supports contracting customs services to an outside firm and emphasized the importance of removing internal customs controls to eliminating corruption and organized crime. End Summary.

2. (U) EconCouns accompanied an AID delegation during a Feb. 6 call on Foreign Minister Jorge Briz. AID had sought the meeting to review Guatemala's plans and assistance needs for the coming years in the area of Central American regional integration. EconCouns sought to learn more concerning recent statements by President Berger and his cabinet (reftel) on Guatemala's desire to open its borders with El Salvador within 90 days, with Honduras and Nicaragua to follow when ready. The press had just announced Guatemalan plans to remove its immigration officials unilaterally and immediately from its borders with El Salvador. (Note: This cable does not cover discussion of how AID's regional program could best interface with Guatemalan priorities.)

Customs Union a Top Priority

3. (C) Briz confirmed that building a customs union was among Berger's top priorities, although it would take a little longer than the 90 days Berger announced. He said that El Salvador and Guatemala already applied the same common external tariff on 96% of all items, and Honduras and Nicaragua were in the 90%-92% range. Costa Rica was "something else," and not an immediate priority like the others but an eventual partner in the scheme. Most of the products not yet harmonized could be with a minimum of political will. Sugar was still complicated on the Salvadoran side, but it could be resolved. Coffee was "not a problem." He said that the "only real problems" were ones created by differing tariff rate reduction schedules negotiated in the CAFTA, and he said he assumed that EconCouns knew what he meant (Comment: Beer, where Guatemala gave immediate access at the very end of the negotiation, to the surprise and consternation of many (reftel). End Comment.) He said it would make a mess of internal efforts to create the customs union if there were large volumes of internal trade of foreign goods that customs union members taxed differently.

Little Risk in Removing Immigration Controls

4. (C) Briz said that removing immigration from the borders with El Salvador posed no real risks. He said that Salvadoran controls over arrivals from third countries were much better than anything Guatemala had on its land borders with El Salvador. The Guatemalan system on the land borders was a mess and would not detect anyone from outside the region who had made it past the Salvadorans. There was no real interest in controlling Salvadorans, particularly as integration was what the President wanted.

Flores Wants a Legacy; Lacayo Not Enthusiastic

15. (C) Briz said that Salvadoran President Flores was eager to move ahead, telling Berger emphatically that he wanted the custom union on his watch, "not Tony Saca's." EconCouns said he'd heard that not everyone was so enthusiastic. Briz responded that (Salvadoran Minister of Economy Miguel) "Lacayo is against it, for some reason."

Distributing Revenues Easier than it Seems

16. (SBU) EconCouns commented that previous talks within the regional economic integration body SIECA reportedly ran into serious problems over how to distribute among members the taxes collected when goods entered the customs union's periphery. How would that be resolved? Briz said it would be much easier than people had thought, as it would rely on businesses rather than customs officials to decide. Businesses knew in what jurisdiction they needed tax deductions and/or value added tax credits to offset income or taxes received on their sales, and they would have every incentive to declare that jurisdiction when they imported a product or bought it from a wholesaler.

Combating Corruption by Eliminating Customs

17. (C) Briz added that customs officials and the organized crime figures who controlled them were the principal sources of corruption in the country. That is why internal borders had to go and external borders had to be simplified as much as possible. He said there was simply too much discretion given to bureaucrats, and it had to be eliminated. He was aware of arbitrary valuation of goods by customs officials but not that Guatemala was obliged to do away with such practices as part of the WTO Customs Valuation Agreement. He seemed delighted when EconCouns told him that there was an international obligation, and he asked his staff to follow up.

Integration Isn't Bureaucratization

18. (C) EconCouns commented that there were other areas where SIECA's work seemed to be creating more problems than solutions. AID Deputy Director added that the USG was looking for efficiency and best practices, not harmonization at the level of the country with worst practices. EconCouns described draft regional contraband legislation that decriminalized contraband of value less than \$100,000 per incident, a de minimis level far higher than contained in any country's current regulations. Briz responded, "That's just about everything." The draft also called for all confiscated merchandise to be auctioned to the public, including pirated goods and pharmaceutical products that couldn't meet national health standards. Briz shook his head knowingly and asked if we could get him a copy of the draft. He commented, "Integration shouldn't mean bureaucratization."

Best Solution is to Privatize Customs

19. (C) Briz said that he thought the best solution for a customs union would be to contract customs inspection and collection to a single private company for all of the union's members. The current system was simply too entrenched and penetrated by organized crime. If there was a reason for El Salvador to be reluctant to open its internal border with Guatemala, it was because Guatemala's corruption and contraband had become a problem for them.

Comment

10. (C) The talk is revolutionary. It also makes a lot of sense, but that means less, politically, than it should. We have known Jorge Briz well as the outspoken President of the Chamber of Commerce from days when he was one of the most acerbic critics of the FRG government and its ties to organized crime. He led the successful revolt against raising taxes in August 2001 on grounds that the government would simply steal them, and he was the target of thousands of anonymous trash-talk flyers allegedly printed at the government's print shop on orders from then Vice President Reyes. (Minugua investigated and found evidence to back the allegations, but Reyes successfully invoked his immunity and blocked any further action.) Briz's contempt for borders and Guatemala's corrupt customs apparatus is something he, a businessman, feels personally and passionately. It's not something he picked up from reading about trade theory or political science. It's going to take a little "fire in the belly" and pragmatic entrepreneurial vision to get integration moving after decades of studying it in places like SIECA. Briz and Berger make it sound simple, and if only it were, but it will take a tremendous effort on many people's part to develop the leadership and follow-through necessary to move from words to a functioning customs union.

HAMILTON